



NORTH CAROLINA GENERAL ASSEMBLY

Session 2017

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Senate and House Finance
Analyst(s): Jonathan Tart
RE: Conference Committee Substitute to Senate Bill 99

SUMMARY TABLE

Fiscal Impact of Conference Committee Substitute for SB 99 (\$ in millions)

	<u>FY 2017-18</u>	<u>FY 2018-19</u>	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>
State Impact					
General Fund Revenue	-	59.0	71.0	94.0	108.0
Less Expenditures	-	-	-	-	-
General Fund Impact	-	59.0	71.0	94.0	108.0

FISCAL IMPACT SUMMARY

This fiscal memorandum addresses the Finance provisions in the budget that have a fiscal impact.

Section 38.1 would update from January 1, 2017, to February 9, 2018, the reference to the Internal Revenue Code (IRC). This means that to the extent North Carolina follows federal tax provisions in calculating State tax liability, changes made to the IRC by the Federal Tax Cuts and Jobs Act and the Bipartisan Budget Act of 2018 would impact revenue collections. However, there have been major tax changes in North Carolina including those listed below that minimize the impact of the federal tax changes:

- NC starts with federal adjusted gross income instead of federal taxable income.
- NC does not conform to federal standard deduction or personal exemption amounts.
- NC does not conform to federal itemized deductions.
- NC allows cost of capital asset purchases to be deducted over a five-year period in place of federal law that allows the cost to be deducted in one year.
- NC eliminated tax credits that were based on federal tax credits.



The estimated fiscal impact results from the following federal tax provisions:

Estimated Impact of Conforming to IRC Changes	FY 18-19	FY 19-20
Reduce threshold for deducting medical expenses from 10% to 7.5% for 2017 and 2018. Eliminate other miscellaneous deductions and income exclusions	-25	3
Simplify small business accounting methods	-35	-31
Limit net interest deduction. Allow unused amounts to be carried forward	10	12
Disallow active businesses losses in excess of taxable income of \$500k (MFJ) and \$250k for others. Allow unlimited loss carryforward deduction up to 80% of income per year. Repeal two year loss carryback deduction for most taxpayers	80	63
Repeal like kind exchanges except for real property	4	6
Repeal deduction for various fringe benefits	14	9
Repeal deduction for FDIC premiums	8	6
Reduce corporate dividends received deduction from 80% to 65% for 20% owned corporations. Reduce dividends received deduction from 70% to 50% for less than 20% owned corporations	3	3
Total	59	71

Section 38.2 closes a loophole that allows a corporation to avoid franchise tax by creating a partnership and making an election for it to be taxed as a C corporation. The provision would affect a small number of taxpayers that have employed the strategy. An estimate of the fiscal impact is not available.

FISCAL ANALYSIS

The fiscal impact to the General Fund is a result of conformity to the IRC enacted as of February 9, 2018, to the extent that North Carolina does not decouple from the IRC in calculating State tax liability. The estimate is prepared by analyzing the US Joint Committee on Taxation (JCT) estimates on changes to federal taxes, IRS Statistics on Income, and North Carolina tax return data. The methodology used for converting federal data to the State level starts by adjusting for differences between the federal fiscal year that ends 9/30 and the State's fiscal year that ends 6/30. Fiscal Research adjusts these numbers to an approximate State fiscal year tax impact. Then, the next step is to prorate the national numbers to the State impact. This adjustment involved two steps: accounting for the relative size of the State based on federal tax collections and then adjusting for the difference in federal marginal tax rates and the State tax rate. Once North Carolina's share of the JCT estimates were determined, State tax liability changes were estimated and allocated to the appropriate fiscal year.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Department of Revenue, US Joint Committee on Taxation, Internal Revenue Service, and Department of Insurance

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

